The Real Estate ANALYST

SEPTEMBER 27
1940

Roy Wenzlick
Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends....Constantly measuring and reporting the basic economic factors responsible for changes in trends and values.....Current Studies .... Surveys....Forecasts

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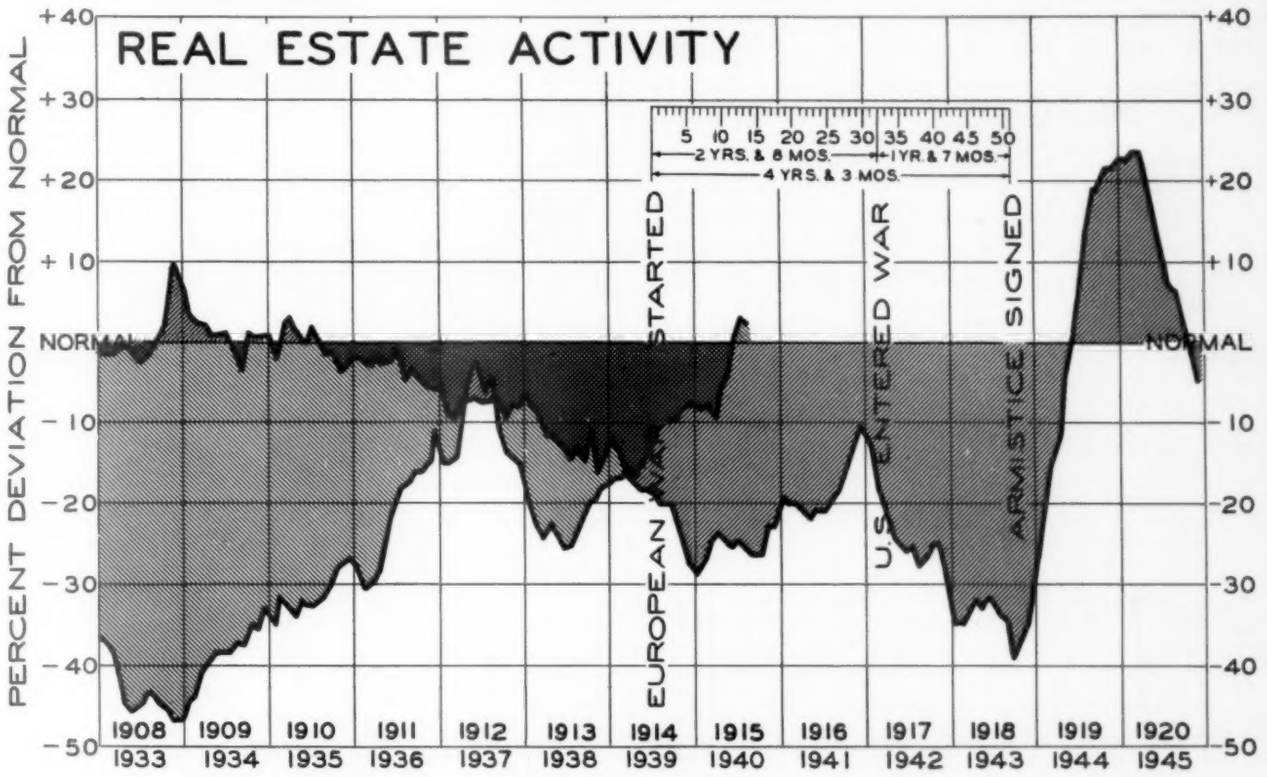
VOLUME IX

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS



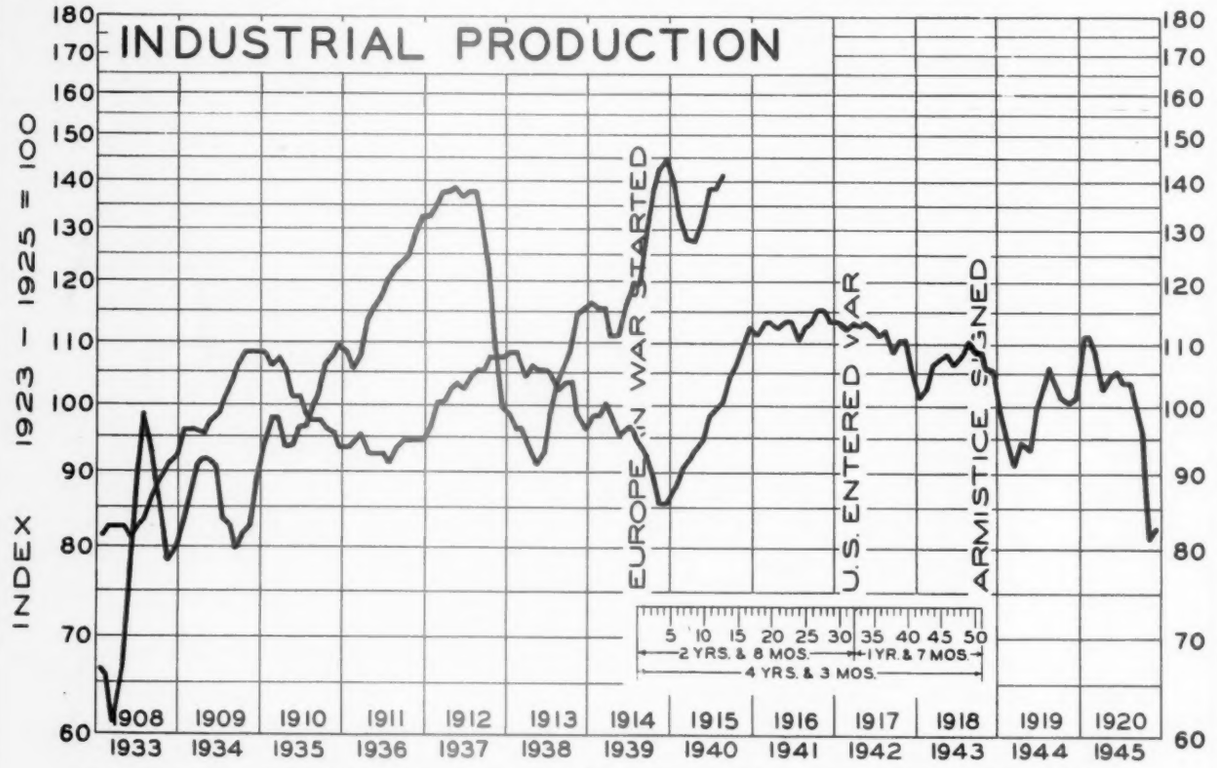
REAL ESTATE MOVES UPWARD

THE chart above shows a comparison of the real estate activity cycle during the 1908-1920 period and the 1933-1940 period. The earlier period is shown in red and the later period in black. The two charts are superimposed in such a fashion that the beginning of the World War in 1914 and the present war in 1939 occur at the same point on the chart.

This comparison shows quite graphically the totally different positions in the real estate cycle in the World War and the present war. Real estate activity had been gradually subsiding for seven or eight years before the World War started, and it continued to drop during the following year. However, by that time the armament boom was in progress in the United States, and from the latter part of 1915 until the end of 1916 real estate activity was increased. When the United States entered the war activity dropped again, reaching the lowest point right before the armistice.

(Continued on the Following Page)

The behavior from 1933 on has been totally different. Real estate activity was increasing rapidly during 1934, 1935, 1936, and the first half of 1937. The planned economy depression of 1937 and 1938 drove it downward, but it immediately started rising again, until now it has touched the normal line on the way up. If activity continues above the normal line, as we think it probably will, the next boom area will start to develop. If the patterns of the past are repeated (as they have been for the past 150 years), we should expect the next boom area to reach its peak about the middle forties. This is in accordance with the forecast we have been making consistently during the past five years and still seems to be the most logical forecast we could make today.

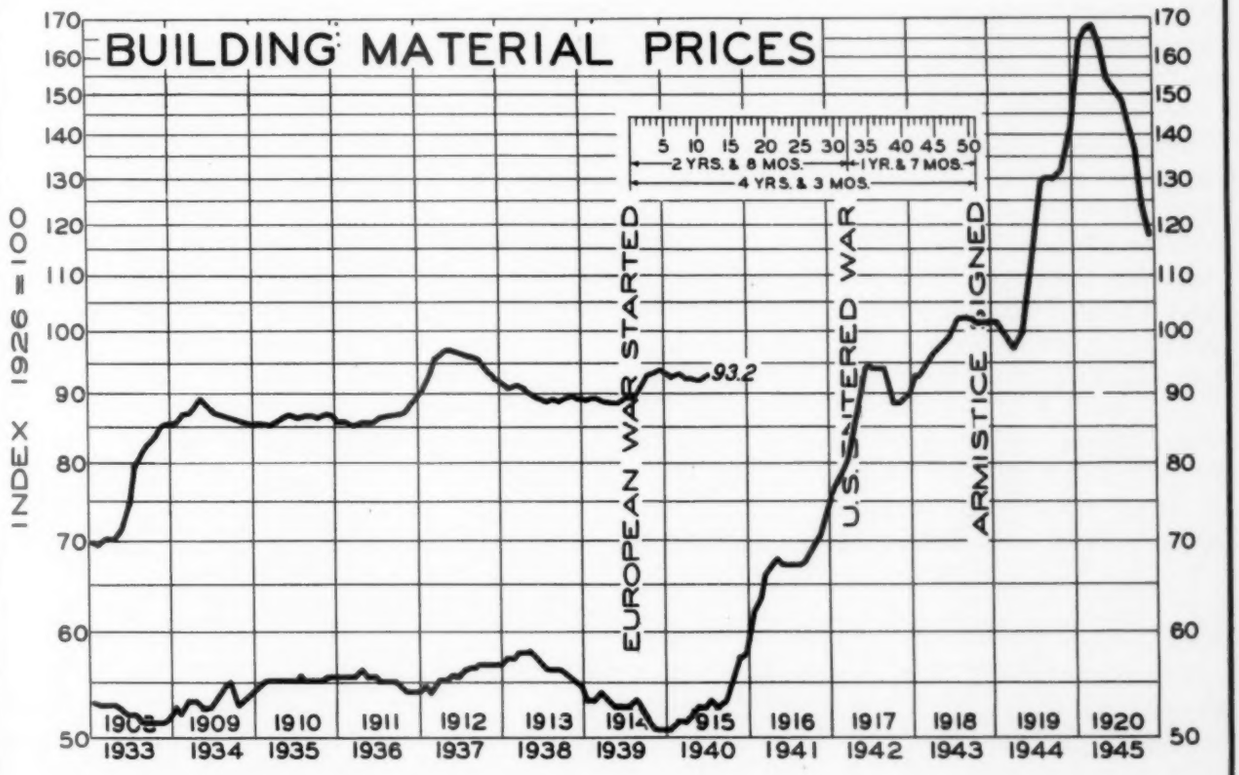


IN OUR OPINION BUSINESS WILL BOOM IN 1941

THE total expenditures for armaments in the United States and for maintaining our military and naval machine during the next six years will probably take between thirty and forty billion dollars, or roughly an average of five hundred million dollars a month. We have had only one experience in the United States with spending on this scale. Several years ago the soldiers' bonus was paid out at this rate for two months, with a very perceptible effect on the business situation during the period. Now we will spend at this rate for some five to seven years, month after month. It seems to us that there can be only one result from this spending, and that is a very powerful stimulus to American business while it lasts. While the bonus was quick-acting as a stimulus, being paid directly to the consumer, the defense expenditures will be more effective and inclusive. They will directly stimulate the business of heavy industries, which has not shown the recovery experienced in other endeavors. It seems to us that these payments will go on regardless of what happens in Europe. Should Germany win a decisive victory over England, we would

certainly rush our rearming at the greatest possible speed and would continue the program until we felt that our military machine was a match for any possible combination of enemies which we might have to face. Should England be able to hold out, it would require a long-protracted war, during which she would have to depend on the United States for a great deal of her defense equipment and ammunition, which added to our own demands, would swell the total still further.

Industrial production is increasing rapidly in the United States on the new index of the Federal Reserve Board. The advance during the last month has been 2%, with new heights ahead for 1941. It will be seen from the chart on industrial production on the previous page that in the World War period the industrial war boom did not start until more than six months after the beginning of the war. The pattern on this war has been quite different. Industrial activity started increasing before the war started in Europe, increased very rapidly during the last part of 1939 and more sharply in the beginning of this year, and is now recovering at a rate more rapid than the increase in activity during the war boom of the last war.

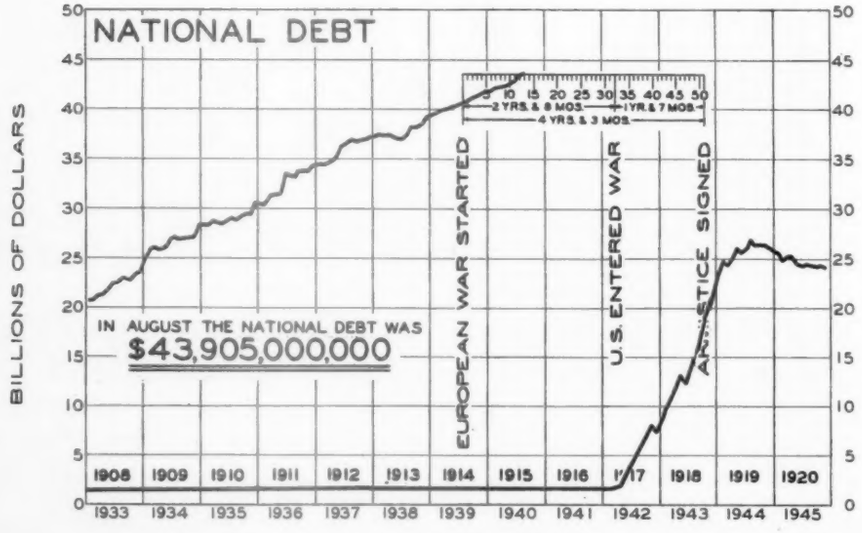


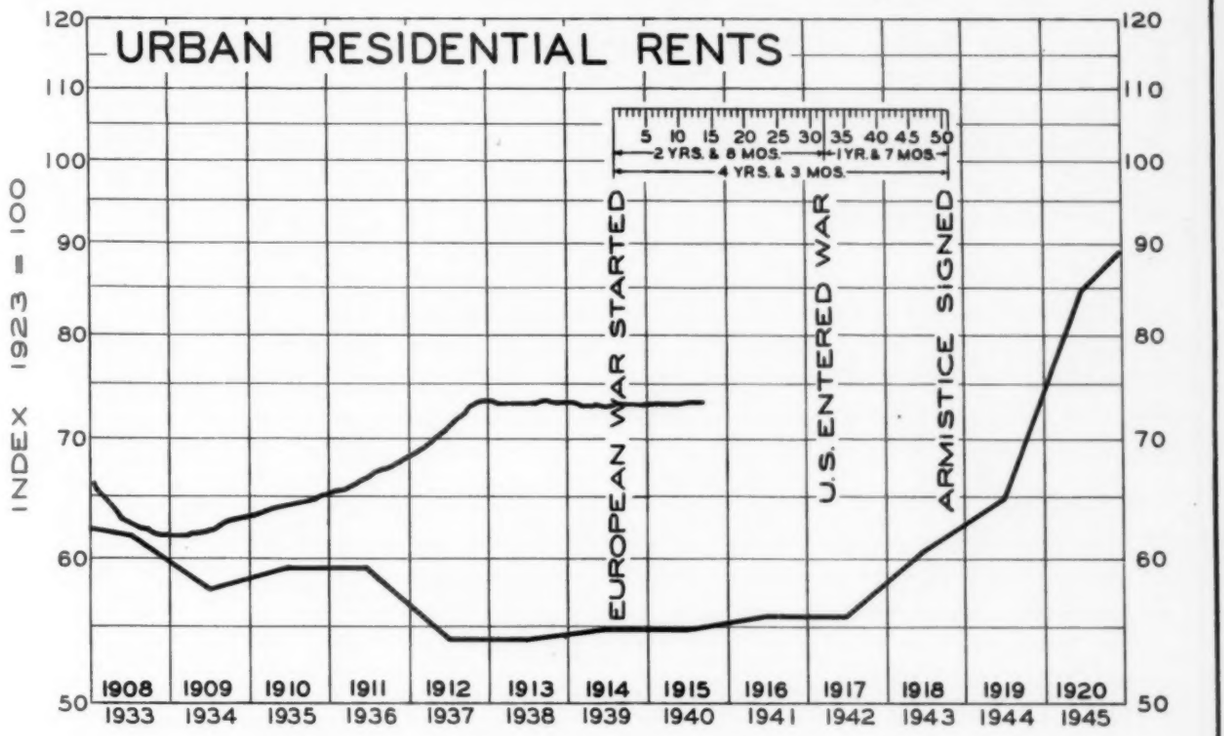
BUILDING COSTS ARE ADVANCING RAPIDLY

DURING the past year we have constantly - in our reports and through separate booklets or magazine articles - urged the immediate letting of construction contracts. We stated that we thought that construction costs would go sideways for a period of possibly six months to a

(Continued on the Following Page)

year and then would start sharply upward. A glance at the figures below will prove quite interesting and alarming. The costs of the standard six-room frame house which we figure each month have shown a tendency during the last two months to rise rapidly. For comparative purposes in the table below we show the prices at various times in the past. In 1914 at the time the World War started the cost was $3833. A year later it was still practically the same. Five years later in 1920 it was $7678. In 1932 at the bottom of the depression it was $4482. In July of 1939, before the beginning of the present war, it was $5923. In January 1940 it was $6005 and still approximately the same amount in July 1940. In August however it rose to $6278 and in September to $6400. These increases, as can be seen from a detailed study of the cost, came primarily in lumber, millwork and plumbing. While we think that the increases in lumber prices will level out for a while, we anticipate further increases in the near future in the cost of building a house, not only in the building material items, which have contributed principally so far to the rise, but in the labor items as well. Cities we have visited in the last few weeks are reporting considerable difficulty in getting carpenters on residential building. In many of these cities carpenters have left residential work and sought higher rates paid for industrial and government building. A shortage of skilled labor of this sort brings about an increase in the labor costs in two ways: first, in higher wages per hour; and second, in lower efficiency of less skilled men, with greater spoilage of material. Increased building costs as a result of the World War started with increased material costs, followed much later by increased labor costs. In the present emergency we are inclined to think that increases in labor costs will follow much more closely the increases in material costs than was the case in the period of the World War. We feel it is highly probable that costs in the future will be much higher than they are at present and that therefore the present is a good time to contract your building requirements.





RESIDENTIAL RENTS

AS shown on the chart above, the progress of residential rents has been totally different during the past eight years than it was during the period of the last war, shown in red. Rents started rising in 1934 and continued to rise until the end of 1937. At that time two influences halted the rise and caused rents to move sideways during the past three years. The first of these was the depression of 1937 and 1938, which again caused a contraction in the demand for space. The second factor and perhaps the major one was the easy financing of new building by the FHA. When it became easy to finance new houses and sell them on monthly payments no larger than the rentals on old buildings, rents naturally stopped rising.

It is believed that rents after going sideways for three years will now start to rise again. In our opinion increased building costs will limit new construction, and stimulated business activity with increased employment will increase demand for residential accommodations; the result will be marked increases in rents and values of older properties. As rents and values increase, assuming a more favorable position in relation to costs, construction will again be stimulated.

On pages 224 and 225 of this report we have printed a table that shows our revised index of residential rents. They are expressed in terms of dollars per month per room. This index of twenty-six typical cities, scattered from coast to coast, makes possible a comparison of rent levels between different cities, and in the same cities between heated and unheated units.

IS THE TRANSITION PERIOD FOR REAL ESTATE OVER?

IN the Real Estate Analyst for February 1938 we first printed the chart to the right with the red shaded circles showing the transition periods from real estate depressions to real estate booms. We again printed it in connection with the interest rate study which is reproduced on pages 221-223. In the present printing we have completed the areas as they have actually developed to date.

The four red shaded circles show the transition periods between real estate depressions and real estate booms. These are numbered 5, 6, 7 and 8, as four earlier transition periods can be identified in the period from 1795 to 1875. No change has been made in the drawing of these circles in this reprinting. In speaking of circle 8 in the report of February 1938, page 888, we said:

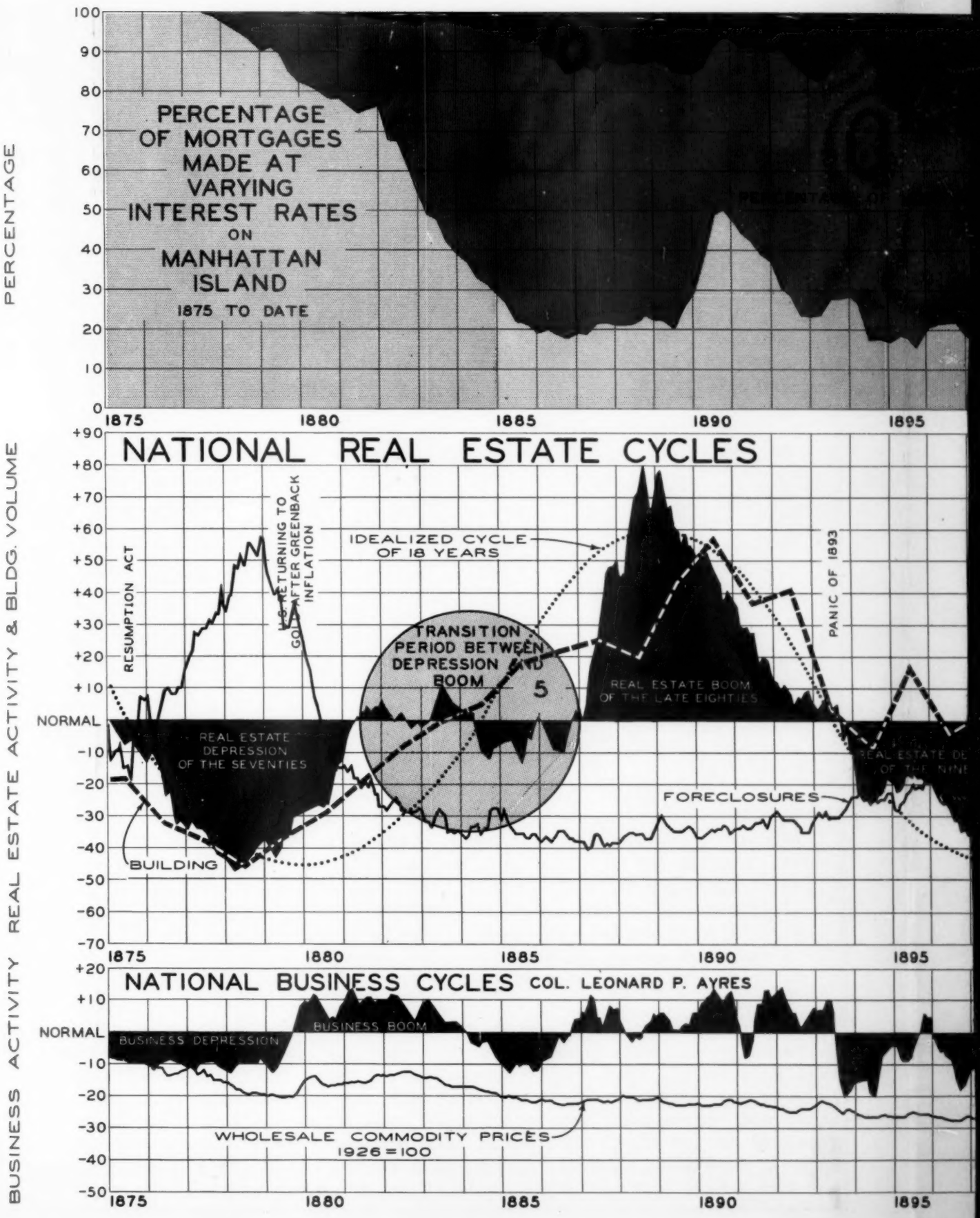
"There is no way of telling at this time how large the red circle for the present period should be,but we have drawn it in the fashion which we believe is the most probable. If we are correct in this estimate, the real boom would not get seriously underway until 1941. It might be interesting to turn back to the December, 1936, Real Estate Analyst on page 652 where we charted our opinion of the development of the real estate activity areas from 1935 through 1945. It will be noticed that at that date we showed our estimate of the real boom commencing in the spring of 1941. By this we do not mean, of course, that real estate will not improve considerably in value in the period immediately ahead. We think that it will, but the boom of which we are speaking will be an irrational boom similar to the irrational booms of the past. The curious thing regarding all of these booms, however, is that, at the time they occur, people never believe them irrational.

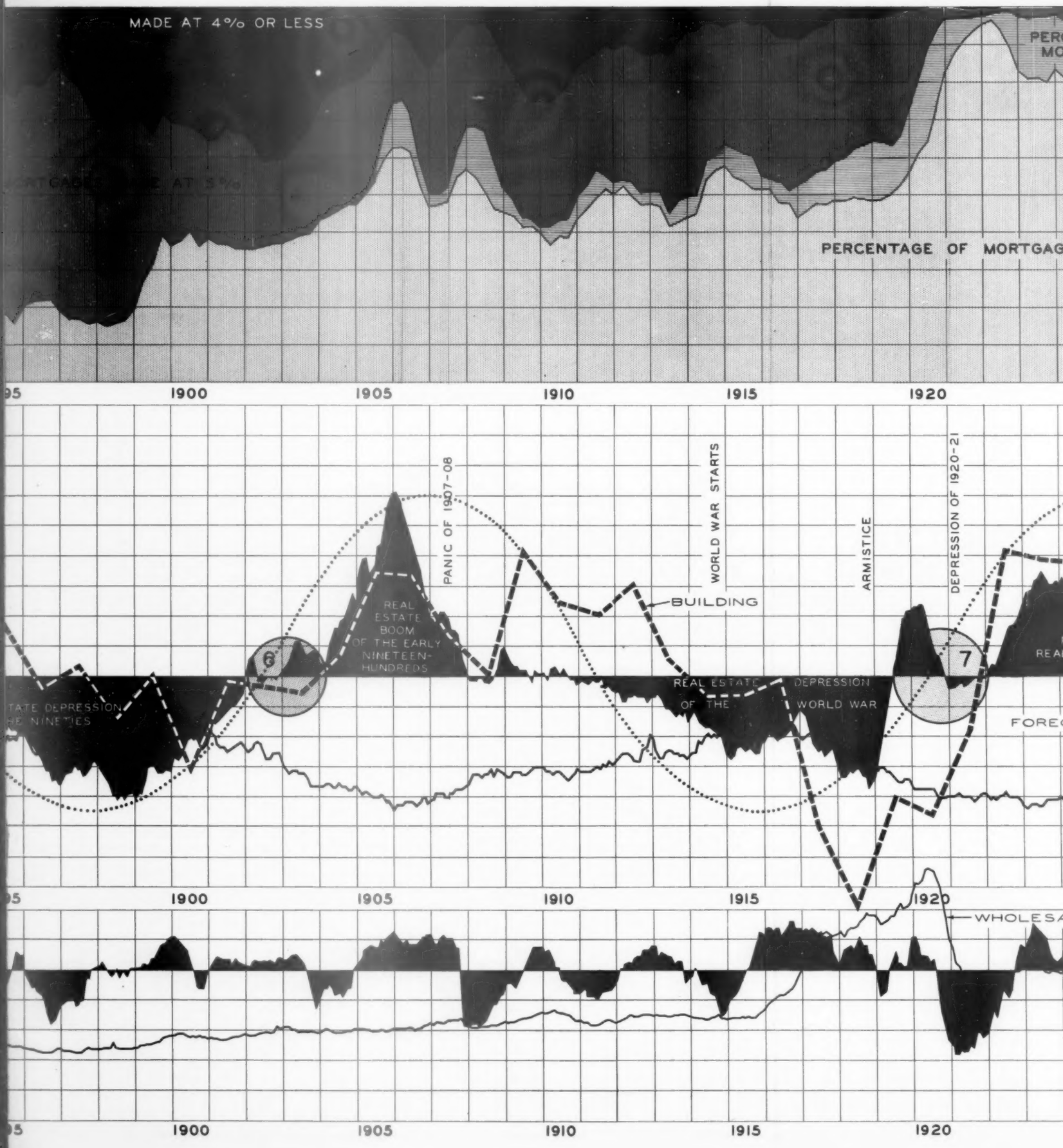
"One reason for believing that the circle covering the intermediate period before the real boom develops will be larger than the circles for the last two intermediate periods is that the period following the big depression of the seventies was quite long. This period was the only other previous one on record when foreclosures rose to similar heights. This must indicate that it takes much longer to liquidate the situation when much property is being held by unwilling owners."

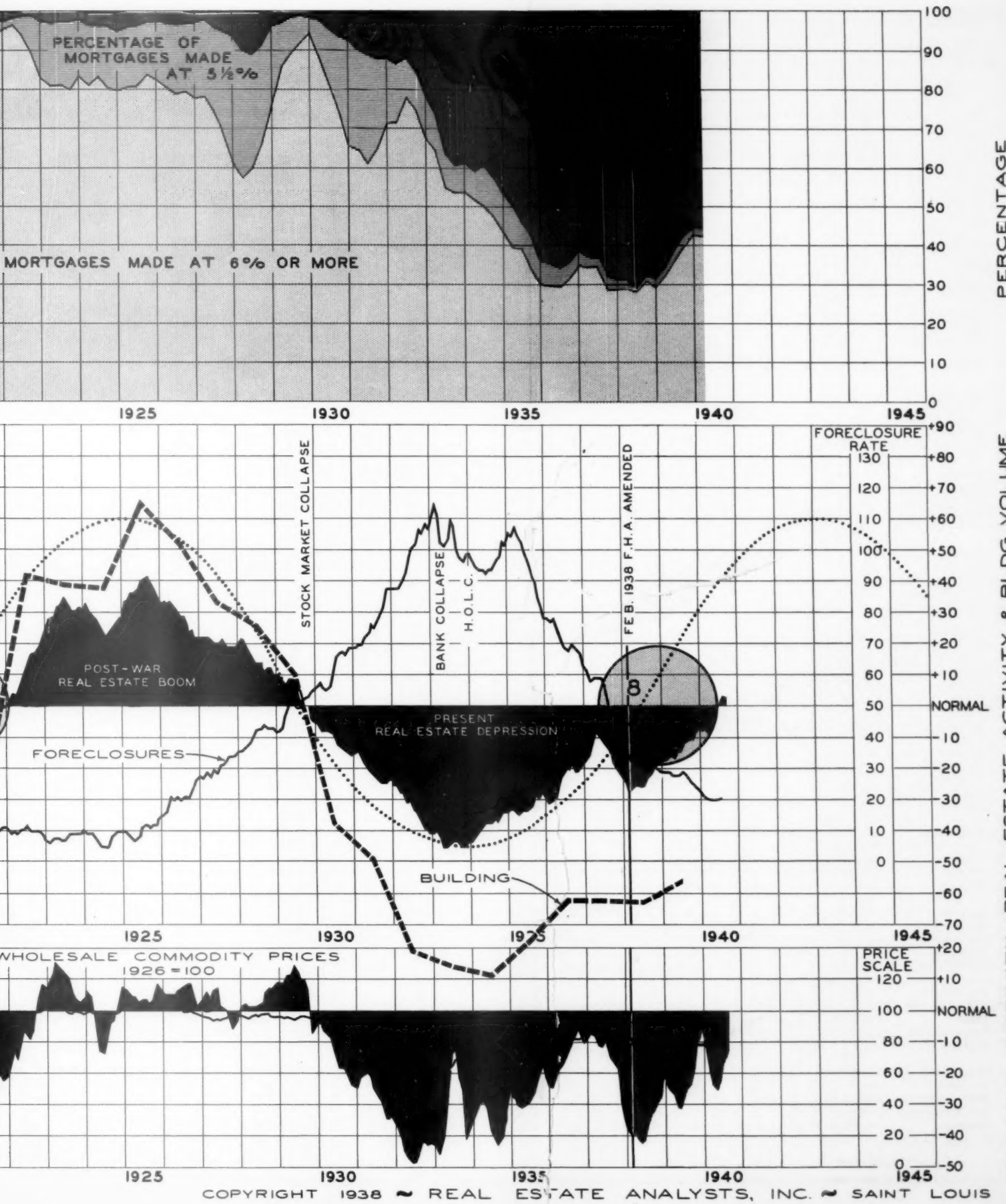
It will be noticed that the transition area for real estate has apparently ended at exactly the point indicated by the edge of the circle published two years and seven months ago. We say "apparently", as it is still possible, of course, for real estate activity to subside again below the normal line; but we are inclined to believe that from now on improvement will be accelerated. We think that the forecast of more than two years ago was correct and that the transition period is over.

These forecasts were made when Europe was at peace, on the basis of fundamental factors as we were able to measure them. The war in our opinion will accentuate trends which would have occurred to a lesser degree without it.

A DISCUSSION OF INTEREST RATES WILL BE FOUND ON PAGE 226


PERCENTAGE
OF MORTGAGES
MADE AT
VARYING
INTEREST RATES
ON
MANHATTAN
ISLAND
1875 TO DATE
PERCENTAGE
100
90
80
70
60
50
40
30
20
10
0
1875
1880
1885
1890
1895
NATIONAL REAL ESTATE CYCLES
BUSINESS ACTIVITY REAL ESTATE ACTIVITY & BLDG. VOLUME
+90
+80
+70
+60
+50
+40
+30
+20
+10
NORMAL
-10
-20
-30
-40
-50
-60
-70
RESUMPTION ACT
U.S. RETURNING TO GOLD AFTER GREENBACK INFLATION
IDEALIZED CYCLE OF 18 YEARS
PANIC OF 1893
TRANSITION PERIOD BETWEEN DEPRESSION AND BOOM
5
REAL ESTATE BOOM OF THE LATE EIGHTIES
REAL ESTATE DEPRESSION OF THE SEVENTIES
FORECLOSURES
BUILDING
1875
1880
1885
1890
1895
NATIONAL BUSINESS CYCLES COL. LEONARD P. AYRES
+20
+10
NORMAL
-10
-20
-30
-40
-50
BUSINESS BOOM
BUSINESS DEPRESSION
WHOLESALE COMMODITY PRICES
1926=100
1875
1880
1885
1890
1895


MADE AT 4% OR LESS
PERCENTAGE OF MORTGAG
1900
1905
1910
1915
1920
PANIC OF 1907-08
WORLD WAR STARTS
ARMISTICE
DEPRESSION OF 1920-21
REAL ESTATE BOOM OF THE EARLY NINETEEN-HUNDREDS
BUILDING
REAL ESTATE DEPRESSION OF THE WORLD WAR
6
7
WHOLESA



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THE REAL ESTATE ANALYST INDE

THE table below shows the rent indexes compiled monthly by Real Estate Analysts, Inc., for all months since December 1936. All rents are expressed in dollars per month per room. The top figures are the rents of single family and duplex units; the bottom figures, the rents of heated apartment units. The twenty-six cities shown in this table were selected as typical of various sections with the idea that in combination they should show an average for the entire country. For details on the method of co page 889 in the February 1938 Real Estate Analys

In looking over the table the slight chang is quite striking. It should be remembered, ho from 1933 to 1937 and that during the past thr

	1936	1937												1938									
	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct
SINGLE FAMILY DWELLINGS																							
National Index	$7.26	$7.31	$7.36	$7.47	$7.55	$7.67	$7.80	$7.90	$8.04	$8.12	$8.23	$8.33	$8.36	$8.36	$8.35	$8.35	$8.37	$8.42	$8.47	$8.45	$8.50	$8.52	$8.5
Atlanta	6.96	6.92	6.93	6.96	7.03	7.07	7.14	7.20	7.31	7.43	7.52	7.56	7.58	7.60	7.56	7.53	7.53	7.53	7.63	7.55	7.64	7.64	7.6
Baltimore	5.84	5.85	5.87	5.93	6.03	6.20	6.37	6.48	6.60	6.77	7.02	7.18	7.15	7.10	6.98	6.90	6.77	6.97	6.98	6.96	6.96	7.03	7.0
Birmingham	5.16	5.20	5.32	5.39	5.47	5.54	5.62	5.73	5.81	5.88	5.93	6.02	6.07	6.08	6.08	6.14	6.09	6.09	6.11	6.06	6.08	6.10	6.1
Boston	7.10	7.13	7.14	7.15	7.18	7.30	7.41	7.52	7.57	7.63	7.67	7.70	7.68	7.65	7.91	7.93	7.95	8.03	8.18	8.08	8.08	8.20	8.0
Chicago	9.25	9.26	9.40	9.58	9.83	9.97	10.10	10.15	10.20	10.26	10.30	10.32	10.35	10.30	10.43	10.69	10.67	10.69	10.67	10.48	10.72	10.73	10.5
Cincinnati	8.88	8.91	8.97	9.09	9.30	9.48	9.68	9.82	9.92	10.03	10.18	10.34	10.51	10.42	10.34	10.29	10.27	10.33	10.28	10.25	10.22	10.28	10.2
Cleveland	8.70	8.75	8.75	8.79	8.91	9.08	9.25	9.37	9.52	9.68	9.80	9.94	10.01	9.92	9.74	9.72	9.86	9.97	9.97	9.95	10.02	10.02	9.9
Columbus	6.26	6.36	6.43	6.57	6.72	6.89	7.07	7.24	7.40	7.57	7.73	7.91	8.03	7.98	7.85	7.71	7.70	7.69	7.64	7.64	7.69	7.65	7.6
Denver	6.37	6.47	6.57	6.69	6.82	6.97	7.12	7.23	7.32	7.40	7.54	7.65	7.75	7.73	7.69	7.70	7.71	7.75	7.75	7.80	7.85	7.87	7.8
Detroit	8.59	8.69	8.80	8.90	9.02	9.20	9.42	9.60	9.74	9.91	10.02	10.15	10.12	10.01	9.85	9.75	9.72	9.61	9.58	9.52	9.57	9.53	9.4
Houston	7.96	8.03	8.05	8.12	8.17	8.20	8.30	8.42	8.52	8.59	8.69	8.86	9.04	8.98	8.96	9.03	9.06	9.06	9.11	9.08	9.11	9.08	8.9
Kansas City	4.66	4.70	4.88	5.07	5.13	5.18	5.24	5.31	5.37	5.35	5.40	5.48	5.60	5.63	5.60	5.62	5.61	5.63	5.80	5.81	5.85	5.90	5.8
Los Angeles	9.58	9.75	9.87	10.02	10.19	10.30	10.38	10.40	10.47	10.58	10.70	10.81	10.88	10.86	10.89	10.87	10.87	10.94	11.00	10.92	10.87	10.80	10.8
Milwaukee	8.35	8.35	8.31	8.35	8.42	8.52	8.59	8.86	9.03	9.15	9.22	9.26	9.27	9.25	9.26	9.31	9.41	9.50	9.42	9.38	9.41	9.33	9.2
Minneapolis	6.46	6.48	6.47	6.56	6.68	6.82	6.96	7.09	7.23	7.32	7.37	7.40	7.39	7.46	7.41	7.47	7.64	7.70	7.86	8.04	8.13	8.14	8.1
New Orleans	6.07	5.98	5.91	5.90	5.93	6.02	6.13	6.26	6.43	6.63	6.82	6.98	7.13	7.07	7.04	6.98	6.92	7.04	7.57	7.55	7.78	7.85	7.9
New York	12.12	12.10	12.12	12.30	12.45	12.65	12.75	12.82	12.93	12.99	12.98	13.00	12.99	12.92	13.01	13.02	13.05	12.97	12.87	12.98	13.15	13.00	13.1
Omaha	6.26	6.25	6.30	6.30	6.31	6.36	6.46	6.58	6.64	6.65	6.62	6.58	6.58	6.50	6.42	6.40	6.36	6.42	6.47	6.48	6.50	6.53	6.4
Philadelphia	6.14	6.23	6.26	6.34	6.42	6.51	6.63	6.73	6.85	6.95	7.05	7.13	7.13	7.11	7.14	7.12	7.22	7.24	7.22	7.14	7.22	7.22	7.2
Pittsburgh	7.65	7.79	7.92	8.07	8.24	8.41	8.63	8.81	8.97	9.04	9.14	9.25	9.29	9.29	9.33	9.45	9.51	9.48	9.36	9.37	9.40	9.44	9.4
Richmond	7.09	7.18	7.21	7.23	7.27	7.35	7.48	7.56	7.80	7.95	8.09	8.15	8.15	8.29	8.25	8.30	8.39	8.30	8.50	8.37	8.40	8.41	8.1
St. Louis	6.86	6.88	6.88	6.92	6.98	7.09	7.20	7.26	7.36	7.45	7.53	7.58	7.59	7.60	7.64	7.70	7.73	7.81	7.92	7.91	7.86	7.90	7.8
Salt Lake City	5.86	5.93	6.02	6.08	6.15	6.21	6.30	6.37	6.46	6.57	6.70	6.82	6.92	6.92	6.91	6.92	6.99	7.09	7.28	7.19	7.27	7.30	7.1
San Francisco	7.84	8.02	8.19	8.35	8.48	8.60	8.73	8.85	8.96	9.04	9.17	9.31	9.41	9.50	9.52	9.55	9.55	9.59	9.71	9.73	9.77	9.80	9.8
Seattle	5.65	5.78	5.90	5.98	6.07	6.17	6.28	6.42	6.52	6.61	6.66	6.70	6.72	6.85	6.94	6.95	6.90	6.99	7.01	7.06	7.12	7.25	7.2
Tulsa	7.13	7.13	7.15	7.20	7.25	7.37	7.46	7.60	7.76	7.92	8.12	8.25	8.37	8.40	8.24	8.23	8.27	8.34	8.50	8.44	8.53	8.69	8.6
HEATED APARTMENT UNITS																							
National Index	10.48	10.59	10.67	10.75	10.80	10.83	10.91	11.00	11.07	11.17	11.28	11.40	11.49	11.58	11.58	11.67	11.63	11.63	11.65	11.64	11.67	11.80	11.8
Atlanta	10.06	10.10	10.09	10.06	10.04	10.04	10.03	10.04	10.09	10.20	10.30	10.37	10.40	10.45	10.52	10.53	10.50	10.53	10.60	10.52	10.57	10.62	10.6
Baltimore	10.61	10.60	10.59	10.54	10.50	10.47	10.43	10.40	10.38	10.41	10.47	10.52	10.52	10.57	10.52	10.51	10.43	10.37	10.38	10.40	10.43	10.53	10.5
Birmingham	8.61	8.68	8.70	8.69	8.68	8.66	8.65	8.69	8.75	8.85	8.92	9.03	9.14	9.26	9.33	9.35	9.41	9.42	9.55	9.48	9.51	9.58	9.6
Boston	12.15	12.29	12.40	12.53	12.69	12.80	12.98	13.11	13.22	13.35	13.50	13.65	13.91	14.20	14.35	14.52	14.62	14.49	14.53	14.55	14.62	14.81	15.0
Chicago	11.63	11.76	11.87	11.95	12.02	12.00	12.01	12.04	12.18	12.30	12.38	12.43	12.46	12.60	12.81	12.90	12.83	12.82	12.71	12.82	12.77	12.78	12.7
Cincinnati	11.75	11.77	11.76	11.80	11.89	11.96	12.11	12.23	12.31	12.45	12.52	12.60	12.67	12.68	12.73	12.82	12.81	12.80	12.85	12.77	12.74	12.83	12.7
Cleveland	10.65	10.85	10.99	11.09	11.19	11.35	11.50	11.70	11.89	12.08	12.25	12.33	12.30	12.42	12.50	12.54	12.62	12.73	12.95	12.80	12.78	12.82	12.7
Columbus	9.99	10.19	10.38	10.51	10.60	10.69	10.80	10.92	11.08	11.29	11.41	11.46	11.46	11.46	11.45	11.45	11.48	11.44	11.42	11.48	11.58	11.61	11.5
Denver	10.86	11.04	11.21	11.33	11.45	11.50	11.61	11.70	11.79	11.99	12.25	12.58	12.83	12.86	12.89	12.90	12.93	12.80	12.78	12.82	12.88	13.10	13.2
Detroit	10.51	10.63	10.73	10.85	10.97	11.10	11.21	11.38	11.55	11.63	11.76	11.85	11.91	11.96	12.00	11.98	11.89	11.85	11.75	11.69	11.57	11.75	11.7
Houston	8.98	9.14	9.30	9.47	9.58	9.71	9.86	10.00	10.09	10.21	10.30	10.29	10.27	10.37	10.37	10.48	10.55	10.58	10.50	10.58	10.70	11.00	11.0
Kansas City	6.14	6.40	6.65	6.90	6.92	6.92	6.91	6.90	6.88	6.90	6.95	7.03	7.09	7.04	6.98	6.97	6.93	6.91	6.80	6.87	6.90	6.95	7.0
Los Angeles	11.90	12.00	12.19	12.31	12.42	12.47	12.53	12.62	12.81	13.01	13.24	13.42	13.59	13.71	13.77	13.80	13.70	13.63	13.56	13.48	13.33	13.38	13.2
Milwaukee	9.47	9.52	9.62	9.75	9.86	9.98	10.12	10.26	10.35	10.49	10.59	10.65	10.70	10.72	10.77	10.72	10.71	10.62	10.53	10.54	10.58	10.65	10.7
Minneapolis	8.93	8.99	9.03	9.10	9.19	9.30	9.40	9.50	9.60	9.64	9.65	9.68	9.68	9.80	9.84	9.82	9.82	9.75	9.80	9.92	10.01	10.14	10.1
New Orleans	8.32	8.33	8.27	8.28	8.34	8.40	8.48	8.54	8.57	8.68	8.80	8.96	9.15	9.20	9.08	8.88	8.78	8.94	9.00	8.95	9.16	9.40	9.5
New York	18.01	18.10	18.20	18.25	18.26	18.29	18.38	18.50	18.59	18.70	18.83	18.95	18.98	19.00	19.00	18.87	18.91	18.87	19.02	19.10	19.20	19.40	19.5
Omaha	10.27	10.30	10.40	10.43	10.43	10.37	10.31	10.35	10.34	10.35	10.40	10.48	10.61	10.62	10.52	10.38	10.19	10.27	10.33	10.40	10.46	10.49	10.6
Philadelphia	13.50	13.65	13.85	13.96	14.05	14.06	14.00	14.00	13.99	14.00	14.10	14.14	14.18	14.22	14.27	14.25	14.22	14.10	14.05	14.20	14.16	14.23	14.2
Pittsburgh	9.75	9.80	9.91	10.10	10.31	10.51	10.72	10.92	11.14	11.34	11.60	11.76	11.88	11.90	11.98	11.98	11.93	11.93	11.94	12.00	12.05	12.20	12.2
Richmond	10.25	10.33	10.42	10.48	10.46	10.46	10.48	10.53	10.59	10.69	10.75	10.88	10.92	10.90	10.97	10.98	11.00	11.03	11.08	11.11	11.18	11.20	11.1
St. Louis	9.76	9.86	9.91	9.92	9.97	10.01	10.01	10.00	9.98	10.01	10.08	10.13	10.24	10.35	10.41	10.40	10.48	10.43	10.34	10.30	10.32	10.41	10.4
Salt Lake City	9.23	9.30	9.35	9.42	9.53	9.62	9.73	9.80	9.90	9.98	10.12	10.24	10.35	10.36	10.33	10.38	10.31	10.43	10.50	10.59	10.69	10.67	10.6
San Francisco	11.22	11.41	11.58	11.84	12.01	12.20	12.30	12.39	12.45	12.55	12.68	12.80	12.89	12.96	13.02	13.13	13.03	13.19	13.14	13.32	13.30	13.27	13.3
Seattle	10.28	10.32	10.39	10.42	10.50	10.52	10.60	10.65	10.61	10.60	10.61	10.61	10.81	10.89	11.00	11.02	11.10	11.37	11.38	11.28	11.27	11.32	11.3

*Preliminary

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e method of construction of these averages see Estate Analyst.

e slight change in rent levels in most cities remembered, however, that the major rise came the past three years little change has taken place. It is encouraging that rents maintained their 1937 level in spite of the depression of 1938 and 1939. It is our belief that the sideways movement will end in the near future, followed by a period in which the general trends will be up. We think that many attempts will be made during the next few years to control rent levels by legislation.

					1939												1940								
ug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	*Sept.
.50	$8.52	$8.50	$8.46	$8.46	$8.43	$8.43	$8.45	$8.47	$8.50	$8.50	$8.50	$8.54	$8.56	$8.57	$8.48	$8.36	$8.35	$8.34	$8.33	$8.35	$8.35	$8.41	$8.47	$8.48	$8.53
.64	7.64	7.64	7.49	7.66	7.67	7.64	7.61	7.65	7.69	7.70	7.73	7.80	7.91	7.92	7.92	7.91	7.96	7.91	7.86	7.95	7.88	7.90	7.91	7.99	8.12
.96	7.03	7.05	7.06	7.14	7.02	6.99	6.99	6.99	7.02	7.09	7.08	7.26	7.39	7.30	7.21	7.08	6.96	6.86	6.86	6.90	7.02	7.20	7.40	7.44	7.50
.08	6.10	6.15	6.25	6.25	6.25	6.28	6.24	6.25	6.24	6.25	6.25	6.23	6.25	6.26	6.28	6.25	6.23	6.25	6.26	6.33	6.36	6.40	6.25	6.42	6.47
.08	8.20	8.09	7.93	8.08	8.09	8.10	8.04	8.20	8.34	8.32	8.15	8.23	8.25	8.25	8.25	8.20	8.04	8.03	8.04	8.02	8.02	8.05	8.09	8.13	8.24
.72	10.73	10.56	10.42	10.38	10.37	10.42	10.59	10.62	10.61	10.53	10.50	10.70	10.64	10.60	10.42	10.26	10.27	10.63	10.59	10.52	10.50	10.51	10.77	10.90	10.86
.22	10.28	10.22	10.14	10.10	10.03	10.03	10.01	10.07	10.11	10.09	10.14	10.12	10.10	9.98	9.85	9.70	9.65	9.70	9.76	9.78	9.85	9.90	9.91	9.93	9.83
.02	10.02	9.90	9.83	9.70	9.65	9.67	9.65	9.65	9.71	9.78	9.77	9.85	9.95	9.94	9.80	9.59	9.54	9.51	9.49	9.51	9.59	9.65	9.75	9.55	9.86
.69	7.65	7.66	7.58	7.52	7.46	7.41	7.39	7.26	7.25	7.15	7.18	7.16	7.14	7.14	7.03	6.91	6.85	6.85	6.93	6.95	6.97	7.06	7.07	7.10	7.19
.85	7.87	7.86	7.87	7.90	7.88	7.90	7.92	7.95	7.98	8.01	8.02	8.05	8.07	8.02	7.92	7.82	7.80	7.70	7.68	7.70	7.75	7.78	7.85	7.91	7.87
.57	9.53	9.45	9.32	9.30	9.15	9.19	9.17	9.26	9.26	9.27	9.20	9.17	9.10	9.00	8.87	8.75	8.60	8.64	8.64	8.68	8.80	8.89	8.95	9.02	9.08
.11	9.08	8.95	8.87	8.86	8.70	8.93	8.90	9.08	9.01	9.09	8.90	8.80	8.80	8.73	8.72	8.62	8.61	8.60	8.54	8.50	8.50	8.52	8.49	8.40	8.36
.85	5.90	5.88	5.86	5.90	5.86	5.94	5.95	6.03	6.09	6.15	6.21	6.29	6.25	6.21	6.15	6.08	6.10	6.09	6.09	6.10	6.14	6.18	6.19	6.20	6.22
.87	10.80	10.80	10.72	10.73	10.80	10.81	10.79	10.75	10.63	10.64	10.62	10.65	10.71	10.70	10.64	10.52	10.61	10.50	10.57	10.59	10.52	10.69	10.69	10.66	10.76
.41	9.33	9.28	9.22	9.16	9.20	9.24	9.27	9.31	9.36	9.41	9.55	9.52	9.42	9.27	9.20	9.03	8.95	8.91	8.95	8.96	8.98	9.07	9.15	9.19	9.15
.13	8.14	8.11	8.07	8.10	8.10	8.19	8.27	8.34	8.37	8.36	8.40	8.48	8.53	8.43	8.36	8.26	8.20	8.30	8.26	8.36	8.35	8.35	8.37	8.37	8.31
.78	7.85	7.90	7.87	7.84	7.78	7.80	7.80	7.88	7.81	7.70	7.75	8.14	8.30	8.50	8.59	8.38	8.15	8.00	7.86	7.85	7.82	7.99	8.24	8.53	8.78
.15	13.00	13.33	13.23	13.19	13.17	13.14	13.15	13.01	12.92	12.90	12.88	12.89	13.01	12.94	12.98	12.86	12.82	12.80	12.60	12.87	12.79	12.72	12.59	12.80	12.72
.50	6.53	6.47	6.41	6.36	6.36	6.25	6.33	6.38	6.47	6.53	6.56	6.58	6.51	6.49	6.45	6.37	6.37	6.42	6.52	6.54	6.58	6.65	6.69	6.75	6.82
.22	7.22	7.28	7.24	7.22	7.20	7.17	7.11	7.14	7.10	7.10	7.05	7.03	7.08	7.05	7.03	6.99	6.99	6.97	6.95	6.96	6.99	7.01	7.00	7.08	7.18
.40	9.44	9.48	9.46	9.58	9.51	9.51	9.58	9.53	9.53	9.45	9.35	9.29	9.25	9.20	9.17	9.10	9.04	8.96	9.06	9.10	8.86	9.06	9.20	9.31	9.33
.40	8.41	8.36	8.40	8.33	8.22	8.36	8.37	8.35	8.39	8.47	8.44	8.37	8.30	8.23	8.31	8.09	8.15	8.20	8.36	8.40	8.35	8.30	8.24	8.25	8.20
.86	7.90	7.86	7.76	7.78	7.80	7.75	7.78	7.86	7.95	7.96	8.09	8.14	8.10	8.13	8.10	8.05	8.02	8.08	8.05	7.94	8.08	8.19	8.24	8.25	8.22
.27	7.30	7.30	7.47	7.58	7.37	7.38	7.39	7.41	7.53	7.60	7.75	7.78	7.85	7.80	7.74	7.70	7.73	7.69	7.69	7.61	7.62	7.69	7.60	7.75	7.77
.77	9.80	9.80	9.80	9.80	9.83	9.85	9.86	9.95	9.82	9.82	9.82	9.80	9.85	9.86	9.86	9.76	9.71	9.76	9.75	9.76	9.71	9.70	9.70	9.70	9.76
.12	7.25	7.22	7.24	7.22	7.20	7.22	7.28	7.13	7.48	7.57	7.50	7.55	7.55	7.59	7.56	7.58	7.65	7.64	7.55	7.58	7.66	7.65	7.69	7.64	7.69
.53	8.69	8.65	8.40	8.32	8.30	8.20	8.17	8.12	8.10	8.02	8.14	8.14	8.16	8.05	7.96	7.85	7.71	7.70	7.75	7.63	7.64	7.63	7.63	7.59	7.58
.67	11.80	11.82	11.82	11.88	12.00	11.92	11.89	11.92	11.89	11.90	11.90	11.92	11.94	11.90	11.90	11.87	11.87	11.82	11.81	11.80	11.80	11.80	11.75	11.79	11.82
.57	10.62	10.60	10.65	10.68	10.70	10.65	10.67	10.68	10.69	10.69	10.70	10.76	10.78	10.76	10.75	10.76	10.74	10.80	10.80	10.83	10.91	10.92	10.88	11.00	11.02
.43	10.53	10.55	10.60	10.62	10.62	10.62	10.63	10.60	10.57	10.52	10.52	10.61	10.59	10.50	10.52	10.48	10.42	10.36	10.36	10.37	10.32	10.30	10.29	10.26	10.30
.51	9.58	9.65	9.68	9.70	9.70	9.70	9.70	9.73	9.76	9.83	9.88	9.86	9.89	9.86	9.85	9.85	9.85	9.85	9.81	9.81	9.80	9.80	9.79	9.81	9.85
.62	14.81	15.07	14.99	15.15	15.11	15.00	14.91	14.80	14.78	14.91	14.82	15.10	15.27	15.30	15.22	15.20	15.17	15.05	15.08	14.81	14.88	14.90	14.90	14.95	14.90
.77	12.78	12.71	12.71	12.61	12.72	12.87	12.82	12.75	12.70	12.68	12.70	12.71	12.63	12.61	12.60	12.53	12.52	12.53	12.53	12.45	12.52	12.51	12.50	12.57	12.65
.74	12.83	12.73	12.75	12.71	12.81	12.83	12.84	12.85	12.90	12.90	12.89	12.85	12.73	12.69	12.67	12.59	12.70	12.70	12.81	12.81	12.87	12.88	12.85	12.86	12.92
.78	12.82	12.73	12.66	12.51	12.58	12.60	12.73	12.75	12.77	12.71	12.70	12.68	12.60	12.67	12.70	12.82	12.83	12.79	12.80	12.73	12.80	12.75	12.70	12.68	12.66
.58	11.61	11.51	11.35	11.50	11.32	11.21	11.15	11.03	11.09	11.09	11.10	11.07	11.03	11.10	11.10	11.10	11.11	11.04	10.99	10.91	10.91	10.88	10.85	10.85	10.90
.88	13.10	13.20	13.23	13.21	13.22	13.22	13.17	13.05	13.10	13.10	13.10	13.12	13.13	13.10	13.04	13.08	13.10	13.08	13.03	13.02	13.00	12.98	12.87	12.74	12.71
.57	11.75	11.78	11.75	11.77	11.80	11.90	11.92	11.90	11.85	11.78	11.70	11.63	11.60	11.58	11.68	11.61	11.58	11.58	11.53	11.56	11.50	11.49	11.54	11.56	11.65
.70	11.00	11.03	11.15	11.09	11.11	11.07	11.12	11.20	11.21	11.14	11.10	11.03	11.00	11.02	11.09	11.04	11.09	11.10	11.11	11.14	11.06	11.01	10.97	10.87	10.77
.90	6.95	7.00	7.04	6.99	7.00	7.00	6.99	7.08	7.09	7.06	7.03	7.04	7.10	7.05	7.08	7.04	7.09	7.05	7.09	7.14	7.16	7.15	7.14	7.14	7.19
.33	13.38	13.27	13.24	13.40	13.56	13.57	13.37	13.24	13.08	13.01	12.82	12.70	12.60	12.52	12.39	12.23	12.15	12.02	11.92	11.85	11.88	11.78	11.70	11.62	11.59
.58	10.65	10.70	10.72	10.80	10.81	10.82	10.75	10.75	10.69	10.63	10.68	10.70	10.64	10.60	10.60	10.59	10.60	10.59	10.61	10.61	10.62	10.61	10.59	10.59	10.59
.01	10.14	10.19	10.20	10.29	10.26	10.26	10.26	10.22	10.20	10.02	10.10	10.10	10.17	10.23	10.34	10.38	10.32	10.30	10.30	10.30	10.30	10.30	10.30	10.28	10.30
.16	9.40	9.51	9.64	9.65	9.91	10.10	10.18	10.29	10.23	10.25	10.25	10.30	10.31	10.37	10.37	10.39	10.41	10.40	10.38	10.32	10.29	10.26	10.30	10.30	10.53
.20	19.40	19.53	19.25	19.57	19.53	19.52	19.49	19.47	19.41	19.46	19.67	19.80	19.80	19.80	19.78	19.56	19.40	19.22	19.16	19.08	19.00	19.20	19.33	19.53	19.65
.46	10.49	10.62	10.41	10.77	10.82	10.89	10.98	10.98	11.20	11.37	11.50	11.50	11.54	11.48	11.43	11.35	11.32	11.37	11.38	11.32	11.49	11.55	11.55	11.60	11.70
.16	14.23	14.25	14.20	14.27	14.36	14.31	14.21	14.14	14.03	13.95	13.90	13.93	14.00	13.98	13.97	13.90	13.77	13.57	13.58	13.60	13.61	13.69	13.68	13.85	14.05
.05	12.20	12.28	12.39	12.50	12.72	12.73	12.77	12.73	12.59	12.50	12.40	12.30	12.28	12.24	12.28	12.17	12.27	12.26	12.30	12.30	12.30	12.30	12.29	12.12	12.11
.18	11.20	11.17	11.15	11.03	11.00	10.88	10.85	10.90	10.95	11.08	11.04	11.09	11.09	11.02	11.03	11.08	11.17	11.10	11.15	11.19	11.22	11.19	11.13	11.08	11.03
.32	10.41	10.49	10.52	10.60	10.65	10.63	10.65	10.66	10.59	10.60	10.61	10.59	10.64	10.70	10.70	10.68	10.64	10.62	10.59	10.59	10.59	10.62	10.57	10.51	10.59
.69	10.67	10.68	10.69	10.81	10.90	10.88	10.97	11.00	10.98	10.94	11.03	11.01	10.98	10.98	10.92	10.90	10.88	11.00	11.09	11.10	11.09	11.01	11.11	11.08	11.07
.30	13.27	13.30	13.41	13.42	13.47	13.49	13.41	13.45	13.42	13.59	13.66	13.69	13.60	13.55	13.50	13.41	13.34	13.30	13.30	13.26	13.30	13.28	13.22	13.12	13.05
.27	11.32	11.27	11.28	11.27	11.37	11.46	11.51	11.52	11.50	11.62	11.72	11.89	11.92	12.02	12.00	12.00	11.97	11.98	11.95	11.85	11.82	11.75	11.76	11.82	11.90

THE DIRECTION OF INTEREST RATES

IN attempting to predict trends in mortgage interest rates it is well to keep in mind that we are not dealing with pure interest but with a rate which includes charges to take care of three other factors besides pure interest. A mortgage interest rate is made up of the following:

1. Pure Interest. By pure interest we mean the return to capital which would be necessary to attract sufficient capital into the market if there were no risk whatever involved in the investment, if it required no supervision, and if the capital so invested could be withdrawn at any time. The interest rate on certain types of government bonds would come very near to being pure interest, if it were not for the tax exemption feature. The fact that government bonds are tax exempt has made persons with larger incomes willing to forego higher interest rates. Probably the interest rates on the most conservative industrial or utility bonds now approximate pure interest.

2. Clearly, a portion of the interest rate is compensation for the risk involved. Theoretically, this portion of the mortgage interest rate should be sufficient in a large number of cases to build up a reserve adequate in size to compensate for those losses in principal which will inevitably occur from time to time in this type of investment. This payment must clearly be larger on mortgages which involve a larger percentage of risk than in those where the risk element is reduced to a minimum.

3. A part of the interest rate is plainly a return to management for the difficulty involved in keeping a fund of money continuously invested. In real estate mortgages it involves the original analysis of the investment, the periodic collection of interest, the keeping of the necessary books, the checking up on taxes paid, and many other similar supervisory processes.

4. A portion of the mortgage interest rate is a compensation to the lender for an absence of liquidity of his investment. Every investing individual would prefer, everything else being equal, investments which can be quickly converted into cash without penalty. Real estate mortgages, on the other hand, are generally made for a period of years; and unless amortized regularly, even at the end of the mortgage it is sometimes necessary to make a new mortgage for approximately the same amount or take over the property. In a period like the one we have just come through, real estate mortgages had little liquidity.

At the top of the long chart on pages 221-223 we show the past experience on mortgage interest rates, computed from the records which are available on all real estate mortgages recorded on Manhattan Island from 1879 to the present. In this study all mortgage extensions, consolidations and agreements were eliminated; but purchase money mortgages were retained in the final tabulation after considerable thought. The inclusion of purchase money mortgages in a period like the present increases the percentage of mortgages made at lower rates of interest, as it is

quite apparent from the chart that during the last few years a large number of mortgage institutions have been selling property with a heavy purchase money mortgage at a rate of interest much below the rate they would expect on a new loan. This was also true to some extent in the early 1900's, when property accumulated during the big depression of the nineties was being liquidated. It apparently was not true to the same extent after the depression of the seventies.

Manhattan mortgages were selected because the figures could be rather easily compiled and it was thought that they would be fairly representative in their movements of mortgages throughout the country. Mortgage money, unlike real estate, is liquid and can seek the most favorable market. Mortgage money will flow into any market where the rate is high in relation to the risk, and away from any place where the rate is low in relation to the risk. This liquidity should have the tendency of equalizing various markets in their general ebbs and flows.

Consideration of the many elements in the present interest picture has brought us to the following conclusions:

1. The pure interest rate during the big depression has been unusually low, as is seen by the small return on short-term government bonds. We think that pure interest will rise as the demand for money increases.

2. The charges thought necessary in the rate as compensation for the risk involved will decrease as real estate comes back into greater favor as an investment. In FHA insured mortgages the risk element has been reduced to a negligible amount, but the FHA insurance premium which must be paid by the borrower at least partially offsets the reduction of the risk element in the rate.

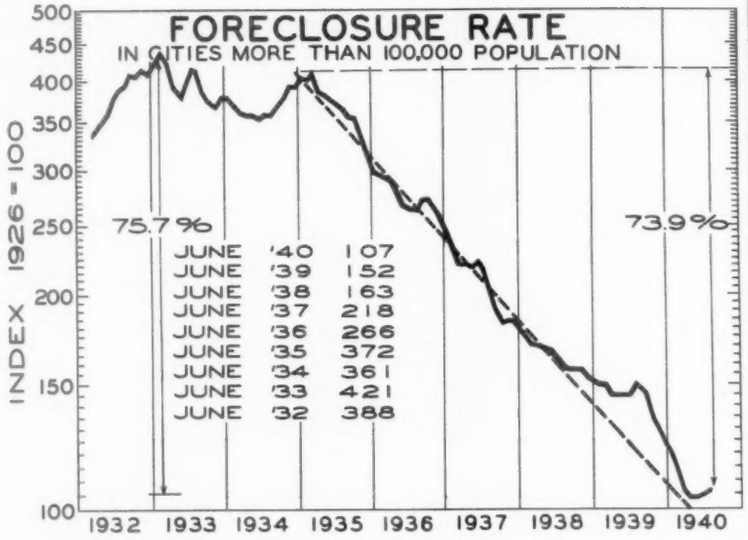
3. The amortized loan also increases the management cost of collections and of keeping funds constantly invested.

4. The charge in the rate for absence of liquidity will drop, partly because of the increasing percentage of insured loans which are quite liquid, and because of the greater favor which real estate mortgages will enjoy with investors when real estate is more profitable than it has been during the past few years.

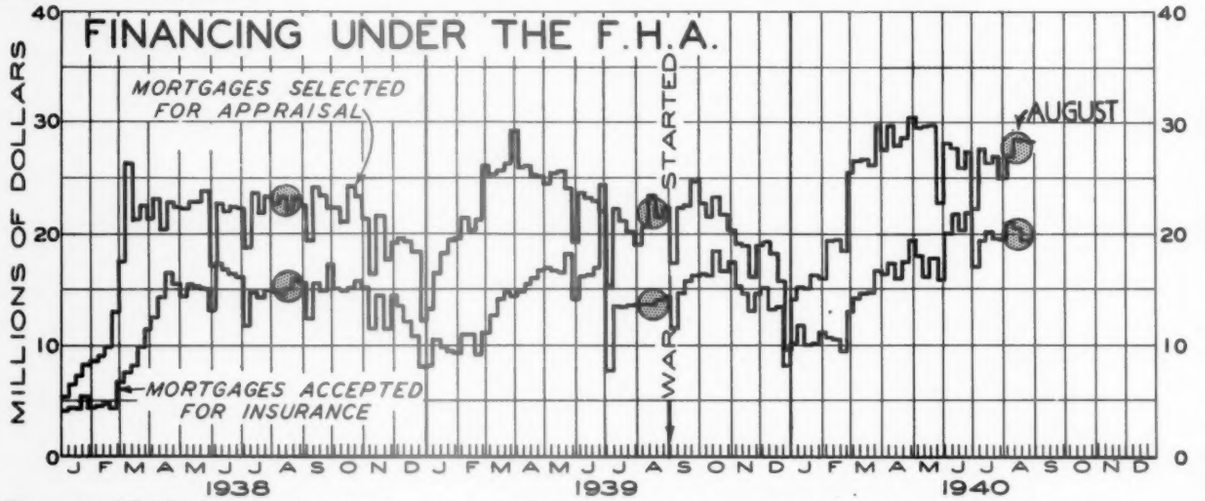
5. The continuance of a large percentage of loans being made at 4% or less indicates many purchase money mortgages and shows that financial institutions are still unloading real estate and reinvesting in low rate mortgages. The increase in the percentage of loans made at 6% is comparable to the rise which occurred in 1899 (see chart) at the close of the big depression of the nineties. If the percentage of 6% loans increases as we think it might, the increase will be similar to the rise which started in 1919 and 1920.

6. During the next few years the trend of interest rates will be upward; this trend we think may continue through the middle forties.

URBAN foreclosures for July, 1940, on a seasonally adjusted basis, showed an increase of two points over June; however, it is the lowest July of any year since 1927. As the path downward since 1934 has been quite irregular, it is expected that the foreclosure rate will hover around the 1926 level in irregular fashion for many months in the future.



The basic figures from which this chart is computed are gathered by the Home Owners' Loan Corporation from all cities of more than one hundred thousand population.


FINANCING UNDER THE F.H.A.
MILLIONS OF DOLLARS
MORTGAGES SELECTED FOR APPRAISAL
MORTGAGES ACCEPTED FOR INSURANCE
WAR STARTED
AUGUST
40
30
20
10
0
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
1938
1939
1940

MORTGAGES selected for appraisal under the FHA during August remained at practically the same level experienced in July. Mortgages accepted for insurance in August showed a slight increase over the July level and are well above the corresponding month of 1938 and 1939.

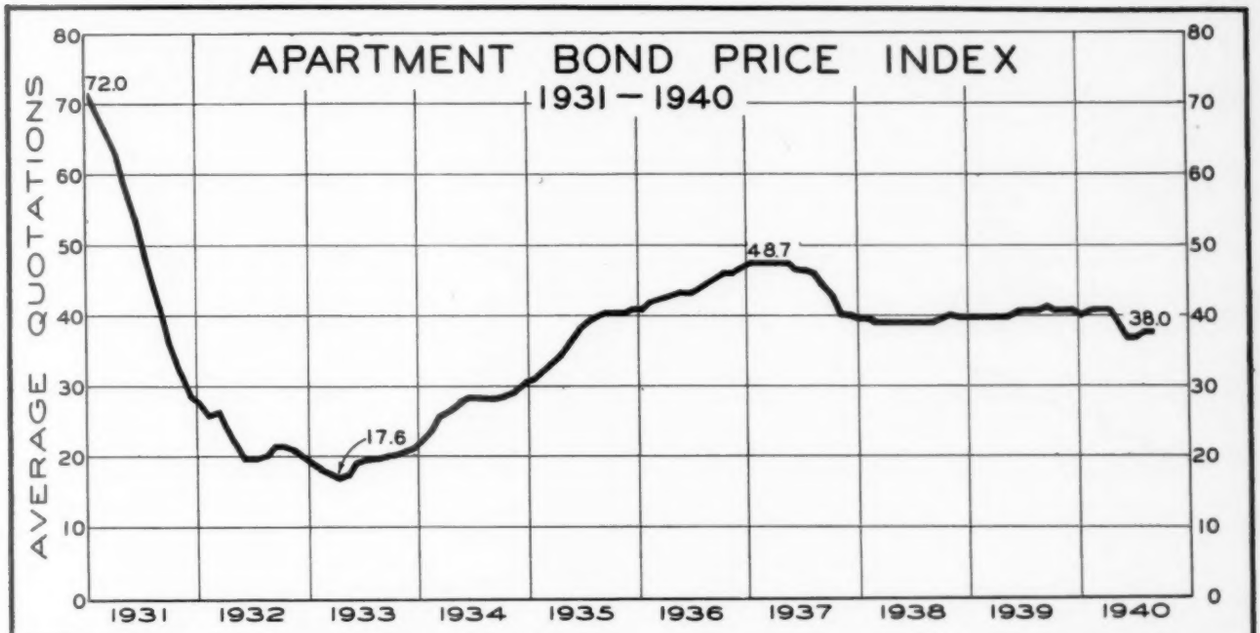
The two tables below show the comparisons with a year ago for the mortgages selected for appraisal and mortgages accepted for insurance.

MORTGAGES SELECTED FOR APPRAISAL COMPARED WITH YEAR AGO

1939					1940							
Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
-8%	-8%	+2%	-4%	-13%	-9%	-2%	-6%	+21%	+18%	+11%	+42%	+24%

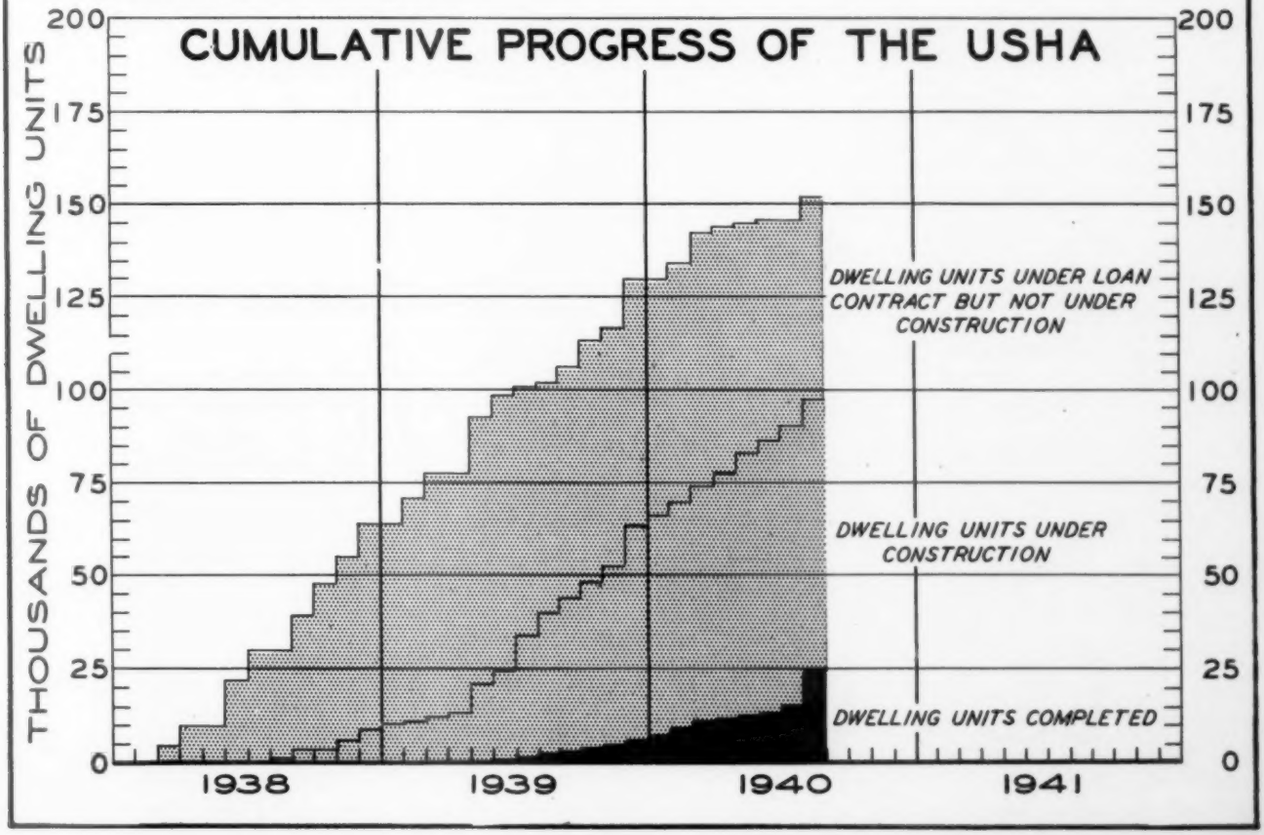
MORTGAGES ACCEPTED FOR INSURANCE COMPARED WITH YEAR AGO

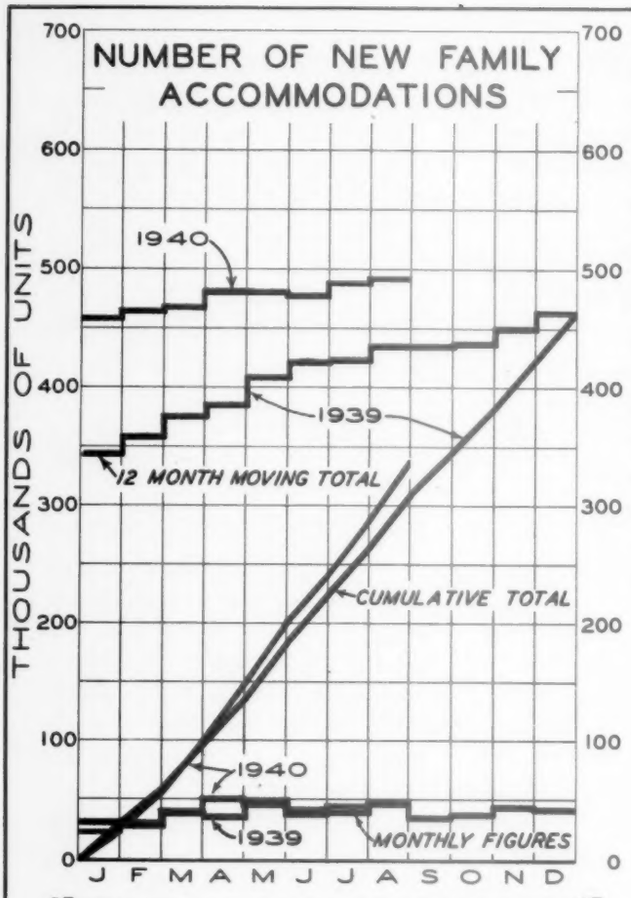
-6%	-9%	+13%	+2%	+5%	+15%	+9%	+1%	+18%	+9%	+2%	+67%	+58%

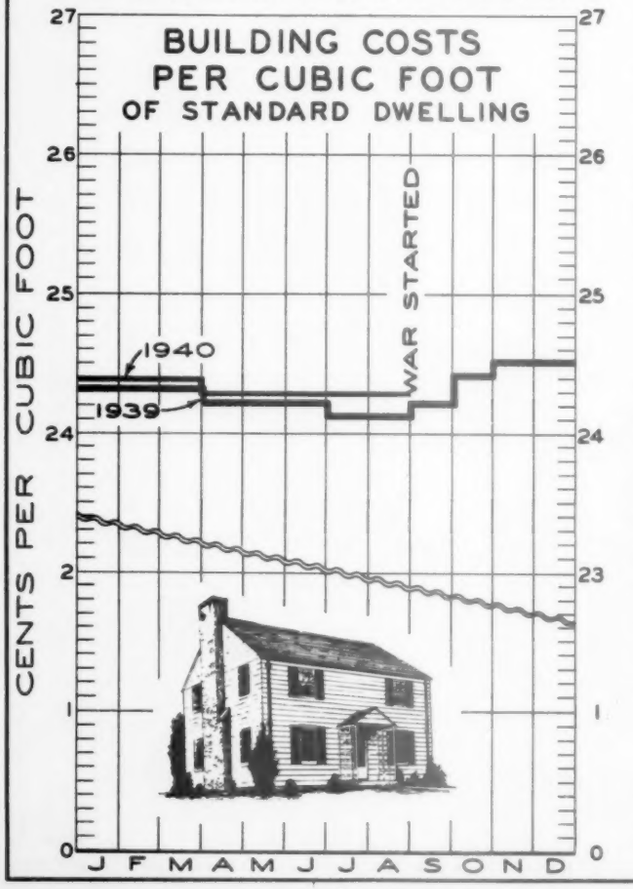


THE index of apartment bond prices for September 1940 remained at the August level of 38.0. It will be noticed that bond prices have hovered close to the 40.0 index level since the latter part of 1937. This level is 53% of the level recorded in January 1931 but represents a 116% increase over the low level reached in April 1933.

The bonds used in preparing this index and the statistical method employed in its preparation are described in detail in our bond bulletin published August 14, 1940.







NEW BUILDING

THE chart to the left shows the number of new family accommodations built during 1939 and 1940 in all non-farm communities of the forty-eight states and the District of Columbia. 1939 is shown in red, 1940 in black. The bottom lines show the monthly figures uncorrected for seasonal influences; the inclined lines, the cumulative totals from the first of the year; and the top lines, the twelve months' moving totals; viz., each point on the top lines represents the totals for the preceding twelve months. These top lines show trends.

DWELLING UNITS CONSTRUCTED IN 48 STATES
(in thousands of units)

	Monthly		Cumulative		12 Month Moving Total	
	1939	1940	1939	1940	1939	1940
January	30.1	25.7	30.1	25.7	345	461
February	29.2	33.7	59.3	59.4	359	465
March	39.4	42.0	98.7	101.4	375	468
April	36.6	51.1	135.3	152.5	386	482
May	49.6	49.1	184.9	201.6	409	482
June	40.6	38.8	225.5	240.4	422	480
July	38.1	48.9	263.6	289.3	423	491
August	46.2	49.4	309.8	338.7	435	494
September	35.7		345.5		435	
October	36.1		381.6		439	
November	42.5		424.1		450	
December	40.9		465.0		465	

BUILDING COSTS

THE chart to the left shows the average cost per cubic foot in 64 cities of building a standard six-room frame dwelling. This house is pictured to the left and is described in the April 26, 1940, report on pages 85-96.

It will be noticed that this chart showing the changes in the cost of construction is complete only through August 1940. The September figures on those cities, where they have been completed, show a sizable increase in cost, similar to the increase mentioned on page 218. Some cities showed considerable increases in August, but these were offset by others which dropped.

Our opinion is that costs will trend upward during the next few years.

SEPTEMBER 27
1940

EXECUTIVE DIGEST

OF THE CURRENT REAL ESTATE ANALYST REPORTS

REAL ESTATE ANALYSTS, INC.

Real Estate Economists, Appraisers and Counselors

VOLUME IX

Roy Wenzlick
Editor

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A comparison of the real estate cycle in relation to the World War and to the present European war shows a much more favorable position today for real estate activity. The next boom area is forming, with the peak expected in the middle forties. This confirms previous forecasts by the Real Estate Analyst made during the past five years.

General business is expected to boom during 1941. The expenditures for armaments, amounting to 500 million dollars per month,will last for several years, whether Germany wins quickly or England holds off defeat after a long war. Armament expenditures will give heavy industries their first stimulant since the depression began.

Residential construction costs during the past two months have advanced about 7% because of the increases in lumber and plumbing prices. Other material prices are expected to follow, with signs of skilled labor shortages already developing in many localities. The present is a good time to contract for building requirements.

Comparisons of the behavior of rents during the present war and the World War show a favorable position today. With increased employment expanding demand and increased construction costs limiting new building, increases in rents and values of older properties are a natural conclusion.

The elements included in mortgage interest rates (pure interest, risk, management, liquidity) are considered in the present picture, and the following conclusions may be drawn:

a. Pure interest rate will rise as the demand for money increases.

b. Compensation for risk will decrease as real estate regains in favor as an investment.

c. The amortized loan has increased management charges in the interest rate.

d. FHA insured mortgages are quite liquid. With the increased favor of real estate mortgage loans, liquidity will further increase and the charge for this element in the rate should decrease. Generally,it is believed that mortgage interest rates will increase during the next few years and may continue to do so through the middle forties.

The transition period of changing from a depression to a boom period apparently was over in July. In February 1938,two years and seven